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PAGE 01 STATE 241560

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APPROVED BY AF:DBBOLEN

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FM SECSTATE WASHDC

TO AMEMBASSY KINSHASA PRIORITY

C O N F I D E N T I A L STATE 241560

E.O. 11652: GDS

TAGS: CG, EFIN, EGEN

SUBJECT: ZAIRIAN-USG CONSULTATIONS ON ZAIRIAN ECONOMIC
SITUATION

REF: STATE 234393

1. SUMMARY: ZAIRIAN FINANCE COMMISSIONER BOFOSSA AND
CENTRAL BANK GOVERNOR SAMBWA VISITED WASHINGTON
SEPTEMBER 27 FOR CONSULTATIONS WITH USG OFFICIALS
(DEPUTY SECRETARY ROBINSON, TREASURY ASSISTANT SECRETARY
PARSKY, EXIMBANK CHAIRMAN DUBRUL AND DEPUTY ASSISTANT
SECRETARY BOLEN). STATE OFFICIALS OUTLINED THEIR VIEW
OF ZAIRIAN ECONOMIC SITUATION AND NEED FOR MULTILATERAL
ASSISTANCE PROGRAM IN COORDINATION WITH IBRD/IMF. USG
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PAGE 02 STATE 241560

PROMISED TO SUPPORT ZAIRIAN EFFORTS TO OBTAIN SUCH AID.
ZAIRIANS AGREED AND PROMISED TO TAKE INITIATIVE. TENTATIVE

ARRANGEMENTS WERE MADE FOR ZAIRIANS TO RETURN TO WASHINGTON IN LATE OCTOBER TO REVIEW THEIR DISCUSSIONS WITH IBRD AND IMF. SAMBWA SIGNED MEMORANDUM OF AGREEMENT ON EXIMBANK INGA-S; ABA LOAN PAYMENT FACILITY. END SUMMARY.

2. ZAIRIAN COMMISSIONER FOR FINANCE BOFOSSA AND CENTRAL BANK GOVERNOR SAMBWA VISITED WASHINGTON SEPTEMBER 27 FOR

CONSULTATIONS WITH USG OFFICIALS. ZAIRIANS MET SEPARATELY WITH THE DEPUTY SECRETARY, AF DEPUTY ASSISTANT SECRETARY BOLEN, TREASURY ASSISTANT SECRETARY PARSKY, AND EXIMBANK CHAIRMAN DUBRUL. ZAIRIANS HAD ORIGINALLY EXPRESSED DESIRE TO MEET WITH IBRD PRESIDENT MCNAMARA BUT IMMINENT IBRD/IMF MEETING IN MANILA RESULTED IN POSTPONEMENT. AF HOSTED LUNCHEON FOR THEM.

3. DEPUTY SECRETARY AND AMB. BOLEN TOOK ADVANTAGE OF BOFOSSA AND SAMBWA'S VISIT TO OUTLINE USG VIEWS ON ZAIRIAN ECONOMIC SITUATION AND SUGGESTIONS FOR DEALING WITH IT. VIEWS PRESENTED WERE ESSENTIALLY THOSE CONTAINED IN REFTEL. DEPUTY SECRETARY ROBINSON EXRESSED OPTIMISM FOR ZAIRE'S LONG TERM PROSPECTS WHILE APPRECIATING SERIOUSNESS OF SHORT TERM SITUATION. HE EXPLAINED USG VIEW THAT SHORT TERM CRISIS NEEDS A MULTILATERAL SOLUTION, AND WE CONSIDER CONSULTATIVE GROUP AN IMPORTANT METHOD FOR MOBILIZING INTERNATIONAL SUPPORT. IMF COORDINATED STABILIZATION PROGRAM WAS A SIGNIFICANT BEGINNING BUT ZAIRE SHOULD NOW MOVE ON TO NEXT STEPS. NATURE THESE NEXT STEPS SHOULD BE WORKED OUT BY GOZ IN CONSULTATION WITH IBRD/IMF. DEPUTY SECRETARY RECOMMENDED THAT BOFOSSA AND SAMBWA MEET WITH MCNAMARA AND WITTEVEEN WHO, HE SAID, ARE WILLING AND ANXIOUS TO HELP WITH RECONSTITUTION OF CONSULTATIVE GROUP IF GOZ IS WILLING TO ACCEPT COOPERATIVE RELATIONSHIP. DEPUTY SECRETARY REAFFIRMED USG DEDICATION TO HELPING ZAIRE SOLVE THESE CURRENT AND CRITICAL PROBLEMS AND OUR WILLINGNESS TO ASSIST ZAIRE BOTH BY PROVIDING DIRECT BILATERAL ASSISTANCE AND BY MOBILIZING INTERNATIONAL
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PAGE 03 STATE 241560

SUPPORT.

4. WE FOUND WE WERE PUSHING AGAINST AN OPEN DOOR. BOFOSSA AND SAMBWA'S EXPOSE OF ZAIRE'S SITUATION CONCLUDED WITH THE STATEMENT THAT ZAIRE NEEDED ASSISTANCE FROM THEIR FRIENDS AND SUCH ASSISTANCE SHOULD BE PROVIDED IN A MULTILATERAL CONTEXT. ZAIRIANS EMPHASIZED THAT CURRENT STABILIZATION PROGRAM SHOULD BE VIEWED AS BEGINNING OF BROADER, LONGER TERM PROGRAM TO LAST FIVE TO TEN YEARS. GIVEN SIZE OF B/P PROBLEM, DEBT RESCHEDULING IS ONLY

ONE ASPECT OF REFORM. MAJOR ISSUE IS ONE OF OVERALL FINANCING OF ZAIRE'S ECONOMY FOR LONGER TERM. PRESENT GOZ STRATEGY IS TO WAIT A BIT LONGER WHILE STABILIZATION PROGRAM MAKES PROGRESS, PROCEED WITH RESCHEDULING NEGOTIATIONS, AND THEN TAKE INITIATIVE WITH IBRD ABOUT CONSULTATIVE GROUP.

5. BOFOSSA AND SAMBWA GAVE LUCID EXPLANATION OF ECONOMIC DEVELOPMENTS WHICH HAVE LED TO ZAIRE'S PRESENT SITUATION AND CLEAR OUTLINE OF THEIR CURRENT POLICY. EXPLANATION WAS NOT A WHITEWASH, WITH SAMBWA FLATLY STATING THAT GOZ HAD MADE TWO SERIOUS MISTAKES IN 1973 AND 1974: FAILURE TO PUT ASIDE FOREIGN EXCHANGE RESERVE FOR POSSIBLE DECLINE IN COPPER REVENUES AND EXCESSIVE RECOURSE TO EURODOLLAR MARKET FOR LOANS. THEREFORE WHEN COPPER PRICE COLLAPSED, ZAIRE WAS FACED WITH HEAVY REPAYMENT SCHEDULE AND INSUFFICIENT RESERVES.

6. IN DISCUSSING GOZ POLICY TOWARDS PROBLEMS, BOFOSSA AND SAMBWA EMPHASIZED IMPORTANCE IN THEIR VIEW OF CONTROLLING GOVERNMENT EXPENDITURES AND RESTRICTING USE OF AVAILABLE FOREIGN EXCHANGE FOR PRODUCTIVE ACTIVITIES. THEY ADMITTED THAT STABILIZATION PROGRAM HAD BEEN SLOW IN TAKING EFFECT. SAMBWA SAID THAT FIRST HALF 1976 DEFICIT WAS Z 60 MILLION AND ESTIMATED TOTAL DEFICIT FOR YEAR WOULD BE Z 160 MILLION. THIS WAS HIGHER THAN IMF ANALYSIS CALLED FOR BUT HE EXPLAINED THAT PRESSURE ON B/P FROM DOMESTIC DEMAND HAD BEEN DIFFICULT TO BRAKE. HE POINTED OUT THAT STABILIZATION PROGRAM HAD ONLY BEEN IN AURATED IN MARCH-APRIL AND REITERATED GOZ'S DETERMINATION TO APPLY PRESSURE. GOZ'S
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PAGE 04 STATE 241560

EFFORTS ARE NOT MERELY SHORT-TERM, BUT ARE INTENDED TO RESTORE BALANCE FOR MEDIUM & LONGER TERM. THEREFORE GOVERNMENT ECONOMIC POLICIES NOW CONCENTRATING ON RESTORATION AND EXPANSION OF PRODUCTIVE SECTORS OF ECONOMY; E.G. GECAMINES CURRENT COPPER PRODUCTION AND EXPANSION PLAN PLUS AGRICULTURAL SECTOR.

7. DEPUTY SECRETARY CONCLUDED BY STATING HE WAS LOOKING FORWARD TO HEARING RESULTS OF ZAIRIAN TALKS WITH MCNAMARA AND WITTEVEEN. BOFOSSA AND SAMBWA AGREED TO INFORM HIM AND, IN LATER CONVERSATION WITH DEPT OFFS, BOFOSSA AGREED IT WOULD BE USEFUL FOR HIM TO COME TO WASHINGTON IN LATE OCTOBER WHEN HE RETURNS TO NEW YORK FOR PRIVATE BANK MEETING.

8. SOME SPECIFIC POINTS OF INTEREST:

A. NEGOTIATIONS WITH PRIVATE BANKS ARE GOING WELL.

SAMBWA HOPE TO OBTAIN SOME SOLUTION TO PRIVATE DEBT PROBLEM AT NEXT MEETING WITH PRIVATE BANKERS (NEW YORK ON OCTOBER 18).

B. SAMBWA REPLIED TO QUESTION ABOUT UNDRAWN IMF CREDIT BY POINTING OUT GOZ HAD ALREADY MADE TWO DRAWINGS (COMPENSATORY FINANCING AND PETROLEUM CREDIT) BUT HAD DECIDED NOT TO UTILIZE CREDIT TRANCHE FOR THE MOMENT. IN ANY CASE APPROXIMATELY 50 MILLION DOLLARS AVAILABLE WAS ONLY DROP IN BUCKET TO ZAIRE'S CUMULATIVE

DEBT EXPOSURE OF 2 BILLION DOLLARS BY 1980.

C. GECAMINES' VARIOUS PRODUCTION PROBLEMS IN FIRST HALF OF YEAR RESULTED IN COPPER PRODUCTION OF 200,000 TO 210,000 METRIC TONS OF COPPER. SITUATION IMPROVING AND GOZ EXPECTS TOTAL 1976 PRODUCTION TO BE IN NEIGHBORHOOD OF 440,000 MT.

D. TWO ESSENTIAL OBJECTIVES OF CURRENT GOZ POLICY ARE TO RESTRICT IMPORTS TO ESSENTIALS AND TO CONTINUE TO MAKE FOREX PAYMENTS TO EXPATRIATE PERSONNEL.

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PAGE 05 STATE 241560

E. IN SIDE CONVERSATION, BOFOSSA STATED THAT GOZ ANALYSIS OF ECONOMY SHOWS THAT ESSENTIAL IMPORT LEVEL IS 800 MILLION DOLLARS ON ANNUAL BASIS. BOFOSSA PROMISED COPIES OF ANALYSIS TO TREASURY ASSISTANT SECRETARY PARSKY AND DEPARTMENT, TO BE DELIVERED TO EMBASSY KINSHASA.

F. SAMBWA ACKNOWLEDGED ZAIRE WAS PAYING OFF PRINCIPAL AND INTEREST OF SHORT TERM CREDITORS IN ORDER TO ENSURE CONTINUED DELIVERIES. HE SAID ACCOUNTS HAD BEEN SETTLED THROUGH MARCH AND FOREIGN EXCHANGE IS PRESENTLY BEING ALLOCATED TO PAY OFF APRIL ACCOUNTS. HE HOPES, HOWEVER, TO BE ABLE TO TERMINATE THIS PAYMENT DRAIN ONCE EXPORTERS SEE THAT ZAIRE HAS TAKEN THE NECESSARY STEPS TO PUT ITS FINANCIAL HOUSE IN ORDER.

9. SEPARATE MESSAGE FORTHCOMING FROM EXIMBANK ON PAYMENT FACILITY ARRANGEMENT (KINSHASA 8101). WE UNDERSTAND SAMBWA SIGNED MEMORANDUM OF AGREEMENT ON FACILITY AND BOTH PARTIES HOPE TO SIGN LOAN AGREEMENT IN LATE OCTOBER WHEN SAMBWA RETURNS TO US FOR MEETING WITH PRIVATE BANKERS. SAMBWA SHOWED GREAT SENSITIVITY, HOWEVER, TO DANGER THAT FUTURE CREDITORS MAY TRY TO USE PAYMENT FACILITY AS PRECEDENT.

10. ACTION: EMBASSY KINSHASA REQUESTED TO FOLLOW-UP
WITH BOFOSSA AND SAMBWA TO OBTAIN COPIES OF GOZ
ANALYSIS OF ESSENTIAL IMPORT LEVEL AND THEIR PLANS
FOR RETURNING TO WASHINGTON FOR CONSULTATIONS IN LATE
OCTOBER. ROBINSON

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